

Message Text

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SUBJ: ALLEGED FRAUD BY AMERICAN-AFFILIATED TRI-SURE INDIA LTD,
BOMBAY, IN RAISING NEW EQUITY

REF: CERP SECTION D

1. LOCAL PRESS (ECONOMIC TIMES, FINANCIAL EXPRESS AND TIMES OF INDIA) FRONT-PAGED APRIL 28 NEWS CONFERENCE CALLED BY TRI-SURE INDIA LTD, BOMBAY, AN AFFILIATE OF AMERICAN FLANGE AND MANUFACTURING CO INC, NEW YORK (HOLDING 49 PERCENT EQUITY) TO SET THE RECORD STRAIGHT ON ITS ISSUE OF NEW EQUITY SHARES LAST YEAR. TRI-SURE MANUFACTURES CLOSURE PARTS FOR INDUSTRIAL CONTAINERS.

2. TRI-SURE, A 100 PERCENT SUBSIDIARY OF AMERICAN FLANGE TILL LAST YEAR, ISSUED A PROSPECTUS IN APRIL 1975 CALLING FOR EQUITY FROM INDIAN INVESTORS FOR BUSINESS EXPANSION AS WELL AS TO DILUTE FOREIGN HOLDINGS TO 49 PERCENT. IT OFFERED 263,000 EQUITY SHARES OF RS 10 EACH AT A PREMIUM OF RS 7.50. ISSUE WAS MANGED BY THE MANAGEMENT CONSULTANT DIVISION OF FIRST NATIONAL CITY BANK, BOMBAY. TOTAL OF 50,000 SHARES WERE RESERVED FOR LIFE INSURANCE CORPORATION AND UNIT TRUST OF INDIA JOINTLY, BOTH OWNED BY GOI, AND 41,341 SHARES WERE ALLOTTED TO INDIAN DIRECTORS AND EMPLYEES OF THE COMPANY. THE REST WERE OFFERED FOR PUBLIC SUBSCRIPTION. WHILE ENTERING MARKET, TRI-SURE ANNOUNCED AT A PRESS CONFERENCE
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ITS PLANS TO MAINTAIN DIVIDEND AT 12 PERCENT ON ENLARGED CAPITAL,

TO ISSUE BONUS SHARES IN THE RATION OF 1:1 AND TO START ANOTHER PLANT AT BANGALORE. (THE COMPANY SPOKESMAN, HOWEVER, POINTED OUT THAT THESE COMMITMENTS WERE NOT MADE IN THE PROSPECTUS.)

3. HOWEVER, RELEASING ANNUAL REPORT FOR THE YEAR ENDING AUGUST 31, 1975, TRI-SURE DIRECTOR MR D.P.MEHTA REPORTED THAT A "SPECIAL INVESTIGATIVE REPORT" BY COMPANY'S AUDITORS INDICATED THAT FIGURES OF SALE, ADJUSTED PROFITS BEFORE TAXATION AND DEVELOPMENT REBATE RESERVE DEDCUTIONS, INVENTORIES, LOANS AND ADVANCES AND CURRENT LIABILITIES WHICH WERE GIVEN IN THE PROSPECTUS WERE INCORRECT AND INFLATED. HE ATTRIBUTED THESE ERRORS TO "DEPLORABLE IRREGULARITIES" IN ACCOUNT BOOKS AND OTHER RECORDS OF THE FIRM IN FINANCIAL YEARS 1974 AND 1975.

4. MEHTA ANNOUNCED THAT TRI-SURE IS PREPARED TO REFUND MONIES TO INVESTORS WHO MADE INVESTMENTS ON BASIS OF DATA GIVEN IN PROSPECT- US. IN ADDITION, HE OFFERED SIX PERCENT COMPENSATORY INTEREST FROM DATE OF ALLOTMENT OF SHARES. SHAREHOLDERS SEEKING DISINVESTMENT WERE ASKED TO FILE BLAIM BY MAY 22.

5. MEHTA FURTHER STATED THAT TO SET THE MATTER FITH, STOCKS AND INVENTORIES HAVE BEEN WRITTEN DOWN BY RS 1.8 MILLION AND ACCOUNTS ARE NOW BEING MAINTAINED PROPERLY. HE CONCEDED THAT SALES AND PROFITS THIS YEAR WOULD BE LESS, THAT THERE WILL BE NO NEW PLANT AT BANGALORE, AND THAT RECOMMENDED DIVIDIENT WILL BE ONLY 6 PERCENT. TRI-SURE'S BOARD ALSO RECOMMENDED THREE EQUITY BONUS SHARES FOR SIXTEEN REGULAR SHARES (AS AGIANST 1:1) FOR SHARE- HOLDERS WHO RETAIN INVESTMENT IN THE COMPANY.

6. MEHTA ANNOUNCED THAT OFFICERS RESPONSIBLE FOR FOREGOING LAPSES INCLUDING MANAGING DIRECTOR K.SHANKAR HEGDE AND SEVENTEEN OTHERS WERE REMOVED FROM COMPANY'S EMPLOYMENT, AND THAT CRIMINAL PROCEEDINGS WERE INITIATED AGAINST THREE OF THEM INCLUDING HEGDE, GOI'S COMPANY LAW BOARD HAS APPOINTED AN INSPECTOR TO INVESTIGATE FALSIFICATION OF ACCOUNTS BY TRI-SURE.

7 COMMENT: ALTHOUGH WE KNEW HEGDE HAD BEEN REMOVED, WE DID NOT KNOW THE REASONS. WE ARE CONTACTING MEHTA TO VERIFY FACTS AND TO HAVE HIS VIEWS ON THEIR RAMIFICATIONS. TO CREDIT OF LOCAL PRESS, IT DID NOT HIGHLIGHT AMERICAN MANAGEMENT ASPECT OTHER THAN LIMITED OFFICIAL USE

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ECONOMIC TIMES, MENTION OF AMERICAN FLANGE AS COLLABORATOR IN THE MIDDLE OF WRITE-UP. HOWEVER, IF EXPERIENCE IS ANY GUID, WE SHOULD NOT BE SURPRISED IF PRESS, POLITICIANS AND LEGISLATORS RAKE-UP TRI-SURE ISSUE IN NEAR FUTURE IN AN EFFORT TO MALIGN AMERICAN BUSINESS CREDIBILITY IN INDIA. THIS POSSIBILITY IS HEIGHTENED BY VIRTUE OF GOI INVESTMENT IN FIRM. ALTHOUGH WE HAVE NO WORD TO THAT EFFECT, BOMBAY STOCK EXCHANGE COULD ALSO INITIATE SOME TYPE OF PUBLIC INTEREST ACTION. WE ARE CONCERNED WITH FALL-

OUT PROBLEM ON OTHER US-CONTROLLED FIRMS PLANNING TO GO PUBLIC
OR ISSUE NEW EQUITY TO MEET FERA REQUIREMENTS.
COURTNEY

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